

BUTTE-MEADE SANITARY WATER DISTRICT
FINANCIAL REPORT
DECEMBER 31, 2011 AND 2010



**BUTTE-MEADE SANITARY WATER DISTRICT
DECEMBER 31, 2011 AND 2010**

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Butte-Meade Sanitary Water District
Newell, South Dakota

We have audited the financial statements of Butte-Meade Sanitary Water District (the District) as of and for the years ended December 31, 2011 and 2010, which comprise the District's basic financial statements and have issued our report thereon dated June 18, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Butte-Meade Sanitary Water District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Butte-Meade Sanitary Water District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Butte-Meade Sanitary Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Butte-Meade Sanitary Water District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect, and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (CONTINUED)**

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 2011-1 that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Butte-Meade Sanitary Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The District's response to the findings identified in our audit, are described in the accompanying Schedule of Current and Prior Audit Findings. We did not audit the District's response and accordingly, we express no opinion on it.

This report is intended solely for the information of the Board of Directors, management, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

David Pummel & Associates, LLP

June 18, 2012



**BUTTE MEADE SANITARY WATER DISTRICT
SCHEDULE OF CURRENT AND PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2011**

PRIOR AUDIT FINDINGS

FINDING 2010-1

SEGREGATION OF DUTIES

This finding has been restated as current audit finding 2011-1.

CURRENT AUDIT FINDINGS

FINDING 2011-1

SEGREGATION OF DUTIES

CRITERIA

An adequate segregation of duties strengthens the effectiveness of the internal control process.

CONDITION FOUND

There is a lack of segregation of duties over receipts and disbursements within the District.

CAUSE

The size of the district staff does not provide for an optimum segregation of duties.

EFFECT

One employee performs most procedures of the receipting process and another employee performs most procedures of the disbursement process.

RECOMMENDATION

The board of directors and manager should continue to perform all practical oversight and review functions.

MANAGEMENT'S RESPONSE

Management and the board of directors will continue to perform oversight and review functions and will implement additional oversight and review procedures where practical.



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Butte-Meade Sanitary Water District
Newell, South Dakota

We have audited the accompanying financial statements of Butte-Meade Sanitary Water District (the District), as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of Butte-Meade Sanitary Water District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Butte-Meade Sanitary Water District as of December 31, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 18, 2012 on our consideration of Butte-Meade Sanitary Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that



INDEPENDENT AUDITOR'S REPORT (CONTINUED)

report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 6 and 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on Butte-Meade Sanitary Water District's basic financial statements. The accompanying supplementary information schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The supplementary information schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

David Pummel & Associates, LLP

June 18, 2012



**BUTTE-MEADE SANITARY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

FINANCIAL HIGHLIGHTS

Butte Meade Sanitary Water District's (the District) net assets decreased by \$607 from 2010 to 2011. The District began preliminary work on two significant projects during the year, installation of a telemetry system to read water tank levels and replacement of customer meters.

Water sales and other sales are directly linked to customer demand. 2011 water sales and other sales increased \$70,413 from 2010 due to increased demand and a \$10 per month increase to the base rate beginning in August. The District is noticing a shift to more residential customers and less commercial customers, with the addition of housing developments and the loss of agriculture based users. Other sales reflect both new construction and repair and maintenance done by District customers. Customers buy material at cost, plus sales tax, through the District. Customer payments constitute other sales. Inventory levels are also dictated by customer demand to some extent, as supplies are ordered for new hookups or customer repairs.

In 2011, total operating expenses increased \$33,601. Repair costs increased \$34,259 due to higher than average major line breaks. As most of the breaks were confined to one area, the District plans to replace this line in 2012.

The District retired \$44,174 in existing debt during the year. The District was approved for a \$396,700 South Dakota Board of Water and Natural Resources Drinking Water State Revolving Fund loan for water meter replacement and billing system upgrade. This project began in 2012.

OVERVIEW OF FINANCIAL STATEMENTS

This report consists of the management discussion and analysis, the basic financial statements, and supplementary information. All District activities are conducted within one enterprise fund.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

There were no significant changes in operations for the District from the prior year. The District will replace all manual water meters with remote read meters during 2012 and has received financing for this project. A rate increase was required by the lender to assist with increased operating costs associated with the meter replacements. Traditionally all

**BUTTE-MEADE SANITARY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2011 AND 2010**

ECONOMIC FACTORS AND NEXT YEAR'S RATES (CONTINUED)

loan obligations are met, and any excess transferred to the operation & maintenance account to fund larger projects, maintenance, or repairs that would exceed normal budgeted amounts.

FINANCIAL ANALYSIS OF THE DISTRICT

The District's statements of net assets and activities changed as follows:

	<u>2011</u>	<u>2010</u>
Current assets	\$ 272,773	\$ 275,856
Restricted cash and funded reserves	181,308	179,694
Property and equipment	2,295,327	2,334,078
Total assets	<u>\$ 2,749,408</u>	<u>\$ 2,789,628</u>
Current liabilities	\$ 61,000	\$ 55,861
Meter deposits	68,515	66,740
Long-term debt	1,210,082	1,256,609
Total liabilities	<u>1,339,597</u>	<u>1,379,210</u>
Net assets -		
Invested in capital assets, net of related debt	1,038,724	1,033,300
Unrestricted	371,087	377,118
Total net assets	<u>\$ 1,409,811</u>	<u>\$ 1,410,418</u>
Water and other operating revenue	\$ 668,929	\$ 598,516
Operating expense	(604,114)	(570,513)
Non-operating income and expense	(65,422)	(51,263)
Increase (decrease) in net assets	(607)	(23,260)
Net assets - beginning of year	1,410,418	1,433,678
Net assets - end of year	<u>\$ 1,409,811</u>	<u>\$ 1,410,418</u>

CONTACTING DISTRICT MANAGEMENT

This financial report is designed to provide the members, customers and creditors with a general overview of the District's finances and demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional information, contact Butte-Meade Sanitary Water District, PO Box 5, Newell, SD 57760.

BUTTE-MEADE SANITARY WATER DISTRICT
STATEMENTS OF NET ASSETS
DECEMBER 31, 2011 AND 2010

ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT ASSETS		
Cash	\$ 70,913	\$ 60,473
Savings	72,642	89,369
Accounts receivable - billed	8,842	4,169
Accounts receivable - unbilled	41,047	34,455
Accrued interest receivable	211	402
Inventory	56,012	65,199
Prepaid expenses	<u>23,106</u>	<u>21,789</u>
TOTAL CURRENT ASSETS	<u>272,773</u>	<u>275,856</u>
RESTRICTED CASH AND FUNDED RESERVES		
Rural Development reserve - cash	55,842	55,806
Rural Development reserve - certificate of deposit	54,200	53,175
Meter deposits held for members - cash	8,263	8,258
Meter deposits held for members - certificate of deposit	<u>63,003</u>	<u>62,455</u>
	<u>181,308</u>	<u>179,694</u>
PROPERTY AND EQUIPMENT		
Furniture and equipment	32,940	30,226
Buildings and structures	98,683	98,683
Equipment - miscellaneous	25,763	21,474
Collection & distribution system	4,788,703	4,747,753
Land	14,087	14,087
Vehicles	<u>36,083</u>	<u>36,083</u>
	4,996,259	4,948,306
Less accumulated depreciation	(<u>2,700,932</u>)	(<u>2,614,228</u>)
	<u>2,295,327</u>	<u>2,334,078</u>
TOTAL ASSETS	<u>\$ 2,749,408</u>	<u>\$ 2,789,628</u>

See accompanying notes.



LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 46,522	\$ 44,169
Accounts payable	13,344	10,479
Accrued interest payable	<u>1,134</u>	<u>1,213</u>
TOTAL CURRENT LIABILITIES	<u>61,000</u>	<u>55,861</u>
 DEPOSITS		
Meter deposits	<u>68,515</u>	<u>66,740</u>
	<u>68,515</u>	<u>66,740</u>
 LONG-TERM DEBT, NET CURRENT MATURITIES		
Mortgages and notes payable	<u>1,210,082</u>	<u>1,256,609</u>
	<u>1,210,082</u>	<u>1,256,609</u>
 TOTAL LIABILITIES	<u>1,339,597</u>	<u>1,379,210</u>
 NET ASSETS		
Invested in capital assets, net of related debt	1,038,724	1,033,300
Unrestricted	<u>371,087</u>	<u>377,118</u>
 TOTAL NET ASSETS	<u>1,409,811</u>	<u>1,410,418</u>
 TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,749,408</u>	<u>\$ 2,789,628</u>



BUTTE-MEADE SANITARY WATER DISTRICT
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
OPERATING REVENUE		
Water sales	\$ 647,336	\$ 585,612
Other sales	21,593	12,904
	<u>668,929</u>	<u>598,516</u>
OPERATING EXPENSES		
Auto	18,108	16,532
Depreciation	86,704	123,435
Insurance	26,254	23,550
Mileage	664	672
Directors' fees	4,000	3,200
Office expense, dues, and travel	14,205	11,046
Payroll taxes	17,001	16,323
Professional fees	18,914	8,020
Maintenance and supplies	117,487	83,228
Employee benefits	35,313	33,147
Wages	222,238	213,370
Utilities	43,226	37,990
	<u>604,114</u>	<u>570,513</u>
OPERATING INCOME	<u>64,815</u>	<u>28,003</u>
NONOPERATING REVENUE (EXPENSE)		
Insurance proceeds	--	19,092
Grant income	3,506	--
Interest income	1,593	2,300
Interest expense	(70,721)	(72,955)
	<u>(65,622)</u>	<u>(51,563)</u>
NET INCOME (LOSS)	(807)	(23,560)
Add additional memberships	<u>200</u>	<u>300</u>
INCREASE (DECREASE) IN NET ASSETS	(607)	(23,260)
NET ASSETS - BEGINNING OF YEAR	<u>1,410,418</u>	<u>1,433,678</u>
NET ASSETS - END OF YEAR	<u>\$1,409,811</u>	<u>\$1,410,418</u>

See accompanying notes.



BUTTE-MEADE SANITARY WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 659,439	\$ 598,514
Cash payments to employees for services	(274,552)	(262,840)
Cash payments to other suppliers of goods and services	(232,123)	(177,923)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>152,764</u>	<u>157,751</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	(1,573)	(1,976)
Interest received	<u>1,784</u>	<u>2,290</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>211</u>	<u>314</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Insurance proceeds	--	19,092
Grants	3,506	--
Memberships	<u>200</u>	<u>300</u>
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>3,706</u>	<u>19,392</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of equipment	(47,953)	(153,390)
Payments of long-term debt	(44,174)	(41,945)
Interest paid	(70,800)	(73,030)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(162,927)	(268,365)
NET INCREASE (DECREASE) IN CASH	(6,246)	90,908
CASH - BEGINNING OF PERIOD	<u>213,906</u>	<u>304,814</u>
CASH - END OF PERIOD	<u>\$ 207,660</u>	<u>\$ 213,906</u>

See accompanying notes.



**BUTTE-MEADE SANITARY WATER DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 64,815	\$ 28,003
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	86,704	123,435
(Increase) decrease in		
Accounts receivable	(11,265)	(52)
Inventory	9,187	3,994
Prepaid expenses	(1,317)	(391)
Increase (decrease) in		
Meter deposits	1,775	50
Accounts payable	<u>2,865</u>	<u>2,712</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 152,764</u>	<u>\$ 157,751</u>

See accompanying notes.



BUTTE-MEADE SANITARY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 1 - NATURE OF ACTIVITIES

The Butte-Meade Sanitary Water District (the District) is a government entity comprised of one enterprise fund. The financial statements are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenue when earned and expenditures when a liability is incurred. The District is a subdivision of the government of the State of South Dakota.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Accounts receivable - unbilled
Unbilled accounts receivable represent estimated water revenues earned by the District which had not been billed to customers at year end.
- B. Inventory
Inventory is stated at cost, as determined on the first-in, first-out method.
- C. Property and equipment
Property and equipment are carried at cost less accumulated depreciation. Depreciation is calculated on the straight-line method over the estimated useful lives of the depreciable assets. The estimated useful lives are as follows:

Furniture and fixtures	5-10 years
Buildings and structures	10-40 years
Equipment	5-10 years
Collection system	5-40 years
Distribution system	10-50 years

The District's policy is to capitalize those assets with a useful life greater than one year, and an initial acquisition cost of \$200 or more. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized. The District capitalizes interest expense during construction projects.



BUTTE-MEADE SANITARY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Vacation and sick leave

Annual leave is earned by the full-time employees at a rate of two weeks after 1 year, three weeks from 10 to 19 years and four weeks after 20 years. Sick leave is earned by full-time employees at a rate of twelve (12) days per year. Upon termination the employees are not entitled to receive compensation for their annual leave or sick leave balances. The District's policy for annual leave and sick leave is that the employee must use or lose leave balances by January 1 of each year.

E. Revenue and expense classifications

In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are not reported as components of operating revenues or expenses.

F. Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

G. Cash and cash equivalents

For the purpose of the Statement of Cash Flows, the District considers all highly liquid investments and deposits with a term to maturity of three months or less to be cash equivalents.

H. Deposits and Investments

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

BUTTE-MEADE SANITARY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

I. Equity classifications

Equity is classified as net assets and is displayed in three components:

1. Invested in capital assets, net of related debt - consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets - consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

J. Application of net assets

It is the District's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NOTE 3 - DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK, AND INTEREST RATE RISK

Deposits and investments

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The District's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the



BUTTE-MEADE SANITARY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011 AND 2010

NOTE 3 - DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK, AND INTEREST RATE RISK (CONTINUED)

FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Deposits are reported at cost, plus interest, if the account is of the add-on type.

The actual bank balances at December 31, 2011 were as follows:

Insured (FDIC)	\$ 250,000
Uninsured, collateral jointly held by state's/district's agent in the name of the state and the pledging financial institution.	<u>74,412</u>
Total deposits	<u>\$ 324,412</u>

The carrying amount of deposits was \$324,863 at December 31, 2011.

Custodial Credit Risk - Deposits - The risk that, in the event of depository failure, the District's deposits may not be returned. The District does not have a deposit policy for custodial credit risk.

Investments - In general, SDCL 4-5-6 permits District funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be



BUTTE-MEADE SANITARY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011 AND 2010

NOTE 3 - DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK, AND INTEREST RATE RISK (CONCLUDED)

in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Credit Risk - State law limits eligible investments for the District as discussed above. The District has no investment policy that would further limit its investment choices.

The District had no investments as of December 31, 2011.

NOTE 4 - PROPERTY AND EQUIPMENT

Summary by category of changes in property and equipment:

<u>Category</u>	<u>Balance December 31, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2011</u>
Land	\$ 14,087	\$ --	\$ --	\$ 14,087
Furniture and equipment	30,226	2,714	--	32,940
Buildings and structures	98,683	--	--	98,683
Equipment - miscellaneous	21,474	4,289	--	25,763
Collection and distribution system	4,747,753	40,950	--	4,788,703
Vehicles	36,083	--	--	36,083
	<u>\$ 4,948,306</u>	<u>\$ 47,953</u>	<u>\$ --</u>	<u>\$ 4,996,259</u>



BUTTE-MEADE SANITARY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011 AND 2010

NOTE 4 - PROPERTY AND EQUIPMENT (CONTINUED)

Summary by category of changes in accumulated depreciation:

<u>Category</u>	<u>Balance December 31, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2011</u>
Furniture and equipment	\$ 21,307	\$ 2,371	\$ --	\$ 23,678
Buildings and structures	33,124	2,641	--	35,765
Equipment - miscellaneous	10,616	1,961	--	12,577
Collection and distribution system	2,521,641	74,527	--	2,596,168
Vehicles	27,540	5,204	--	32,744
	<u>\$ 2,614,228</u>	<u>\$ 86,704</u>	<u>\$ --</u>	<u>\$ 2,700,932</u>

NOTE 5 - LONG-TERM DEBT

Long-term debt consisted of the following at December 31:

	<u>2011</u>	<u>2010</u>
5% revenue bond due Rural Development, payable in annual installments of \$5,870 including interest, maturing March 2014.	\$ 9,675	\$ 14,805
6.625% revenue bond due Rural Development, payable in monthly installments of \$5,236 including interest, maturing June 2032.	697,503	713,546
5.125% revenue bond due Rural Development, payable in monthly installments of \$667 including interest, maturing December 2016.	35,193	41,225



BUTTE-MEADE SANITARY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011 AND 2010

NOTE 5 - LONG-TERM DEBT (CONTINUED)

	<u>2011</u>	<u>2010</u>
5% revenue bond due Rural Development, payable in monthly installments of \$574 including interest, maturing December 2016.	30,410	35,637
4.125% revenue bond due Rural Development, payable in monthly installments of \$1,939 including interest, maturing July 2048.	435,419	440,610
3% loan due National Rural Water System, payable in monthly installments of \$676 including interest, maturing August 2018.	48,404	54,955
	<u>1,256,604</u>	<u>1,300,778</u>
Less current maturities	(46,522)	(44,169)
	<u>\$ 1,210,082</u>	<u>\$ 1,256,609</u>

The annual requirements to amortize all long-term debt outstanding as of December 31, 2011, including interest payments of \$981,449 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	46,522	68,454	114,976
2013	47,642	65,966	113,608
2014	45,698	63,408	109,106
2015	48,178	60,928	109,106
2016	50,724	58,300	109,024
2017-2021	185,305	258,037	443,342
2022-2026	234,523	195,977	430,500
2027-2031	319,095	111,405	430,500
2032-2036	75,023	49,402	124,425
2037-2041	82,346	33,994	116,340
thereafter	121,548	15,578	137,126
	<u>\$1,256,604</u>	<u>\$ 981,449</u>	<u>\$2,238,053</u>



BUTTE-MEADE SANITARY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011 AND 2010

NOTE 5 - LONG-TERM DEBT (CONCLUDED)

The terms of the revenue bonds require that the District maintain a debt service account. A sum equal to the minimum of 1/12 of the annual installment coming due on the next succeeding January 1, is to be deposited to this account each month. Principal and interest payments are to be made from this account. At December 31, 2011, the District was in complete compliance with these terms.

The terms of the revenue bonds also require that all the surplus net revenues, in excess of the amounts required in the maintenance of the debt service account noted above, be deposited in a reserve account. This account shall be used for major repairs, maintenance, and improvements on the water system. No funds were available for deposit to this account as of December 31, 2011.

The District received notification of loan approval for a meter replacement project in June 2011. The loan is a South Dakota Board of Water and Natural Resources Drinking Water State Revolving Loan Fund loan of \$396,700. The loan terms are 10 years at 2.25 percent interest and an \$85,000 principal forgiveness. The loan is contingent upon a rate increase to customers which was implemented in August 2011. The first draw took place in 2012.

A summary of the changes in long-term debt follows:

	<u>Balance December 31, 2010</u>	<u>Proceeds</u>	<u>Retired</u>	<u>Balance December 31, 2011</u>	<u>Due Within One Year</u>
Revenue Bonds -					
Rural					
Development	\$1,245,823	\$ --	(\$ 37,623)	\$1,208,200	\$ 39,771
Note Payable -					
National Rural					
Water System	54,955	--	(6,551)	48,404	6,751
	<u>\$1,300,778</u>	<u>\$ --</u>	<u>(\$ 44,174)</u>	<u>\$1,256,604</u>	<u>\$ 46,522</u>



BUTTE-MEADE SANITARY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011 AND 2010

NOTE 6 - RETIREMENT PLAN

All employees, except for part-time, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivors' benefits. The right to receive retirement benefits vests after three years of credited service.

Authority for establishing, administering, and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605)773-3731.

General employees are required by state statute to contribute 6 percent of their salary to the plan, while public safety and judicial employees contribute at 8 percent and 9 percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to the SDRS for the fiscal years ended December 31, 2011, 2010, and 2009 were \$12,921, \$12,416, and \$12,015 respectively, equal to the required contributions each year.

NOTE 7 - RURAL DEVELOPMENT RESERVES

Cash held in Rural Development reserve accounts consists of funds set aside for debt service, repairs, replacements, improvements, and additions as approved by Rural Development.



BUTTE-MEADE SANITARY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011 AND 2010

NOTE 8 - INSURANCE COVERAGE

The District has the following insurance coverage:

Employer's Mutual Policy #56869, November 15, 2011 to November 15, 2012	
Property coverage	\$ 2,843,131
Umbrella coverage	\$ 1,000,000
Liability coverage	
Occurrence limit	\$ 1,000,000
Aggregate limit	\$ 2,000,000
Medical expense limit	\$ 5,000
Automobile coverage	
Liability	\$ 1,000,000
Uninsured motorists	\$ 1,000,000
Underinsured motorists	\$ 1,000,000
Workers Compensation	
Accident limit (per accident)	\$ 500,000
Disease limit (per employee)	\$ 500,000
Disease policy limit	\$ 500,000
Directors and Officers Liability	\$ 1,000,000
Western Surety Company	
Fidelity Bond #5240227, October 31, 2011 to October 31, 2012 \$175,000 clerk/treasurer	

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2011, the District managed its risks as follows:

Employee Health Insurance

The District does not provide health insurance for its employees.



**BUTTE-MEADE SANITARY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2011 AND 2010**

NOTE 9 - RISK MANAGEMENT (CONTINUED)

Liability Insurance

The District purchases liability insurance for risks related to torts; theft of or damage to property; errors and omissions of directors and officers; and automobile accident or damage from a commercial insurance carrier.

Worker's Compensation

The District purchases liability insurance for worker's compensation from a commercial carrier.

Unemployment Benefits

The District provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

NOTE 10 - SUBSEQUENT EVENTS

The District had no subsequent events requiring recording or disclosure in the financial statements through June 18, 2012, which is the date the financial statements were available to be issued.



**BUTTE-MEADE SANITARY WATER DISTRICT
SUPPLEMENTARY INFORMATION SCHEDULES
FOR THE YEAR ENDED DECEMBER 31, 2011**

METER DEPOSITS

Water meter deposits are held separately in depository accounts in the name of the District.

COMPENSATION OF DIRECTORS

For the years ended December 31, 2011 and 2010, fees of \$4,000 and \$3,200 and mileage of \$664 and \$364 were paid to directors.

RURAL DEVELOPMENT RESERVES

In accordance with the provisions of the regulatory agreement, restricted cash is held by First National Bank which is insured by the Federal Deposit Insurance Corporation. Restricted cash is to be used for debt service, repairs, replacements, and improvements of property as approved by Rural Development. Restricted cash transactions for the year ended December 31, 2011 are as follows:

Balance - December 31, 2010	\$ 108,981
Deposits	1,061
Withdrawals	<u> -- </u>
Balance - December 31, 2011	110,042
Required balance	<u>106,864</u>
Amount in excess	<u><u>\$ 3,178</u></u>

AGED ACCOUNTS RECEIVABLE

Current	\$ 46,387
31-60 days	917
61-90 days	1,026
91 days and over	<u>1,559</u>
	<u><u>\$ 49,889</u></u>

